



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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September 9, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo
Auditor-Controller

SUBJECT: **SANTA ANITA FAMILY SERVICE, INC. – A COMMUNITY AND SENIOR SERVICES' WORKFORCE INVESTMENT ACT PROGRAM SERVICE PROVIDER – CONTRACT COMPLIANCE REVIEW – FISCAL YEAR 2014-15**

We completed a contract compliance review of Santa Anita Family Service, Inc. (SAFS or Agency), a Community and Senior Services' (CSS) Workforce Investment Act (WIA) Youth Program provider. Our review covered a sample of transactions from Fiscal Year (FY) 2014-15. We also reviewed transactions for the closeout period of FY 2013-14. The purpose of our review was to determine whether SAFS appropriately accounted for and spent WIA funds and provided the services in compliance with their County contract and WIA requirements.

The WIA Youth Program is a comprehensive training and employment program for in-school and out-of-school youth and young adults between the ages of 14 to 21 years old. CSS paid SAFS approximately \$1.5 million on a cost-reimbursement basis during FY 2014-15. SAFS provides services to participants residing in the First and Fifth Supervisorial Districts.

Results of Review

SAFS' significant accounting issues impact their ability to ensure WIA funds are adequately safeguarded and appropriately used to provide WIA Program services. Specifically, SAFS':

- Audited financial statements for the period ended June 30, 2014 reflected a \$221,082 decrease in net assets and their liquidity ratios for the same period significantly weakened by more than 50% from the prior year.
- Approximately \$77,520 (47%) of the \$166,055 in accounts payables were over 60 days past due as of March 31, 2015. According to Section 8.44.1 of their County contract, "a contractor shall be deemed to be insolvent if it has ceased to pay its debts for at least 60 days in the ordinary course of business, or cannot pay its debts as they become due." We noted similar findings in our prior year's monitoring report.
- Fiscal operations continue to lack staff with adequate accounting knowledge and a higher-level supervisory review typically performed by a Chief Financial Officer (CFO) or equivalent. Since our last audit of SAFS (December 12, 2014), SAFS has had four different CFOs, and has not been able to provide updated accounting records to adequately support their FY 2014-15 or FY 2013-14 close-out WIA Program expenditures.
- Single Audit Report for the period ended June 30, 2014 noted material weaknesses in the Agency's oversight and monitoring of controls related to accounting for government grants and compliance requirements.

SAFS' attached response indicates that as of June 1, 2015, they have paid approximately \$125,000 in past-due expenditures, through the use of a private loan, and is currently in discussions to determine the best way to leverage the Agency's two major assets. SAFS' response also indicates that their acting CFO will help the Agency identify the right candidate as their full-time CFO by January 2016.

SAFS also billed CSS \$889,184 in questioned costs and did not comply with other provisions of their County contract. For example, SAFS:

- Did not equitably allocate shared administrative and indirect staffs' salaries to all benefited programs as required by Section C.2.0 of the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) and Office of Management and Budget Circular A-122. Questioned costs totaled \$320,827 (\$302,558 in FY 2014-15 and \$18,269 in FY 2013-14 close-out). We noted a similar finding in our prior year's monitoring report.

SAFS' attached response indicates that, "SAFS is finalizing a Cost Allocation Plan (Plan) for FY 2013-14 which has been submitted to CSS for review and approval." The Agency's Plans for FY 2013-14 and FY 2014-15 were in compliance with their County contract requirements. However, SAFS did not appropriately apply their Plans to equitably allocate their shared expenditures, or provide adequate documentation to support the percentages used to allocate their shared costs.

- Did not provide accounting records to adequately support the Agency's expenditures, such as, liability insurance, participant wages, administrative costs, and other miscellaneous non-payroll expenditures billed to CSS for FY 2013-14. Questioned costs totaled \$173,304. We noted a similar finding in our prior year's monitoring report.
- Did not provide any accounting records to support \$262,949 in non-payroll expenditures SAFS billed to CSS from July 2014 through January 2015. As such, we could not determine whether the expenditures charged to the WIA Programs were allowable, properly documented, or accurately billed. We noted a similar finding in our prior year's monitoring report.

SAFS' attached response indicates that CSS instructed the Agency not to update their general ledger accounts with the allocation entries until the allocation method is approved by CSS, but the underlying source documents have been available. SAFS did not provide any accounting records to support the amounts billed to CSS, and SAFS staff indicated that they billed CSS based on budget not actual expenditures/conditions as required.

- Billed CSS \$86,770 (\$51,520 in FY 2013-14 and \$35,250 in FY 2014-15) in unallowable salaries for one Clinical Director and one Staff Therapist to provide mental health services that were not required by the WIA Programs.

SAFS' attached response indicates that the position of the Clinical Director was to work with the case managers on a weekly and emergent basis to identify and support youth who may have problems in their jobs, and the role of the Staff Therapist was for counseling and workshops related to their jobs and issues arising from the job. However, SAFS could not provide documentation to support the services the Clinical Director and the Staff Therapist performed for the WIA Program.

- Did not obtain criminal background clearances for four (80%) of the five volunteers/interns as required by Section B.3.2 of the A-C Handbook.

Subsequent to our review, SAFS provided proof of criminal background clearances for three of the four volunteers/interns.

- Did not report their expenditure accruals to CSS as required by WIA Directive WIACD-10-05. We noted a similar finding in our prior year's monitoring report.

SAFS' attached response indicates that they have complied with WIA Directive since March 2015.

Due to the Agency's significant accounting issues, their inability to pay their debts, and their lack of compliance with their County contract requirements, CSS should place the Agency in the County's Contractor Alert Reporting Database (CARD). According to the CARD Manual, a contractor that has experienced financial, administrative, programmatic, or legal issues that affect their ability to comply with their contract requirements should be placed in CARD.

According to CSS management, SAFS' WIA contract expired on June 30, 2015 and due to the significant issues noted in our current and prior-year report, their contract was not renewed for FY 2015-16.

Details of our review, along with recommendations for corrective action, are attached (Attachment I).

Review of Report

We discussed our report with SAFS and CSS. SAFS' attached response (Attachment II) indicates that they generally concurred with our findings and recommendations. CSS management will work with SAFS to ensure our recommendations are implemented.

We thank SAFS management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:EB:yp

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer
Cynthia D. Banks, Director, Community and Senior Services
Barbara Cavalier, Board President, SAFS
Dr. George Nalbach, PhD, Interim Executive Director, SAFS
Public Information Office
Audit Committee

**SANTA ANITA FAMILY SERVICE, INC.
WORKFORCE INVESTMENT ACT PROGRAM
CONTRACT COMPLIANCE REVIEW
FISCAL YEAR 2014-15**

FINANCIAL VIABILITY

Objective

Determine whether Santa Anita Family Service, Inc. (SAFS or Agency) is financially viable and maintains sufficient working capital to provide adequate services under their Community and Senior Services (CSS) Workforce Investment Act (WIA) Program contract.

Verification

We reviewed the Agency's audited financial statements and Single Audit Reports for the periods ended June 30, 2013 and June 30, 2014.

Results

SAFS' audited financial statements for the period ended June 30, 2014 reflected a \$221,082 decrease in net assets and their liquidity ratios for the same period significantly weakened by more than 50% from the prior year. We also noted that approximately \$77,520 (47%) of the \$166,055 in accounts payables were over 60 days past due as of March 31, 2015. According to Section 8.44.1 of their County contract, "a contractor shall be deemed to be insolvent if it has ceased to pay its debts for at least 60 days in the ordinary course of business, or cannot pay its debts as they become due."

SAFS' Single Audit Reports for the periods ended June 30, 2013 and June 30, 2014 reported that the Agency's accounting records contained several misstatements and adjustments that should have been corrected prior to the auditor's review. The Single Audit Report for the year ended June 30, 2014 noted material weaknesses in the Agency's oversight and monitoring of controls related to accounting for government grants and compliance requirements. Specifically, the auditors noted that the Agency did not allocate costs in compliance with Office of Management and Budget (OMB) Circular A-122, and used budgeted costs and budgeted allocation percentages instead of using actual costs incurred or actual percentage of costs incurred in the allocation of their indirect costs. As noted later in the report, SAFS billed CSS approximately \$780,000 in questioned costs due to inappropriate and unsupported allocation of their indirect and shared costs.

In addition, we noted that the Agency's fiscal staff still lacked a solid understanding of financial accounting and reporting, which significantly impacted the Agency's fiscal integrity and controls to safeguard program funds. SAFS' fiscal operations also continued to lack a manager responsible for performing the functions of a Chief Financial Officer (CFO) or equivalent. Since our December 12, 2014 report, SAFS has

changed their consultant CFOs several times, and their services were used on an “as needed” basis. Although CSS has closely worked with the Agency since the issuance of our prior year’s monitoring report, SAFS has yet to provide their updated accounting records to support their Fiscal Year (FY) 2013-14 and FY 2014-15 WIA Program expenditures.

We noted similar findings in our prior year’s monitoring report.

Recommendations

Santa Anita Family Service, Inc. management:

- 1. Submit a plan to Community and Senior Services on how the Agency plans to improve their financial condition, including how the Agency plans to pay its debts as they become due.**
- 2. Maintain accurate accounting records and improve the Agency’s oversight and monitoring of controls related to accounting for government grants and compliance requirements.**
- 3. Ensure that accounting staff are qualified to perform financial accounting and reporting duties in compliance with their County contract.**
- 4. Obtain the services of a full-time Chief Financial Officer or equivalent to perform higher-level supervisory review over accounting staff.**

ELIGIBILITY

Objective

Determine whether SAFS provided services to eligible individuals for the WIA Program.

Verification

We reviewed the case files for 45 (9%) of the 495 participants who received services from July 2014 through February 2015 for documentation to confirm their eligibility for WIA Program services.

Results

SAFS had documentation to support all 45 participants’ eligibility for WIA Program services.

Recommendation

None.

BILLED SERVICES**Objective**

Determine whether SAFS provided the services billed to CSS in accordance with their County contract and WIA guidelines.

Verification

We visited SAFS' four service sites, and reviewed the case files for 45 (9%) of the 495 participants who received services from July 2014 through February 2015.

Results

SAFS maintained documentation in the case files to support the services provided to the participants reviewed.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether SAFS properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank reconciliations were reviewed and approved by Agency management timely.

Verification

We interviewed Agency personnel, and reviewed their financial records, their one bank account's activity, and December 2014 bank reconciliation.

Results

SAFS did not provide adequate accounting records, such as general ledgers, cash receipt ledgers, and accounts receivable ledgers, to determine whether the Agency properly recorded their FY 2014-15 Program revenues in their financial records. In addition, SAFS' December 2014 bank reconciliation was not approved by management, and the Agency did not resolve outstanding checks in a timely manner as required by Section B.1.4 of Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook). We noted similar findings in our prior year's monitoring report.

Recommendations

Santa Anita Family Service, Inc. management:

- 5. Maintain accurate and complete accounting records.**
- 6. Ensure bank reconciliation reports are approved by management.**
- 7. Ensure bank reconciling items are resolved timely.**

COST ALLOCATION PLAN/EXPENDITURES**Objective**

Determine whether the Agency's Cost Allocation Plan (Plan) complied with their County contract, and if expenditures billed to the WIA Programs were allowable, properly documented, and accurately billed.

Verification

We interviewed Agency personnel and reviewed their Plan. SAFS did not provide any accounting records to support the \$262,949 in non-payroll expenditures SAFS billed CSS from July 2014 through January 2015.

Results

SAFS prepared their Plan in compliance with their County contract. However, according to SAFS personnel, the Agency billed CSS based on budget, not actual expenditures/conditions as required by their Plan. In addition, SAFS did not provide accounting records, such as general ledgers, cash receipt and disbursement ledgers, accounts receivable ledgers, and cost allocation schedules, to support the \$262,949 in non-payroll expenditures SAFS billed CSS from July 2014 through January 2015. As such, we could not determine whether the expenditures charged to the WIA Programs were allowable, properly documented, or accurately billed. We noted similar findings in our prior year's monitoring report.

Recommendations

Refer to Recommendation 5.

Santa Anita Family Service, Inc. management:

- 8. Repay Community and Senior Services \$262,949 plus any subsequent months' unallowable and unsupported expenditures, or provide adequate documentation to support the expenditures.**
- 9. Ensure that the management-approved Cost Allocation Plan is used when allocating shared costs, and ensure shared costs are**

appropriately and equitably allocated based on actual expenditures/conditions.

10. Ensure monthly reimbursement requests are based on actual paid expenditures and not budgeted amounts.

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

Objective

Determine whether the Agency maintained adequate internal controls over its fiscal operations. In addition, determine whether the Agency was in compliance with their WIA and other County contract administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, and conducted an on-site visit.

Results

As previously indicated, SAFS did not maintain adequate internal controls over their fiscal operations as the Agency's staff continue to lack a solid understanding of financial accounting and reporting. In addition, SAFS did not report their expenditure accruals to CSS as required by WIA Directive WIACD-10-05. Specifically, SAFS billed CSS for unpaid expenditures instead of reporting the liabilities as expenditure accruals. We noted a similar finding in our prior year's monitoring report.

Recommendations

Refer to Recommendations 3 and 4.

11. Santa Anita Family Service, Inc. management ensure compliance with the Workforce Investment Act expenditure accrual reporting requirements.

PAYROLL AND PERSONNEL

Objective

Determine whether SAFS and participant employers appropriately charged payroll costs to the WIA Programs in accordance with their County contract and Program requirements. In addition, determine whether the Agency obtained background clearances, verified employability, maintained proof of current driver's licenses, and maintained proof of automobile insurance as required.

Verification

We compared the WIA payroll costs for eight employees and ten participants, totaling \$40,645 for November 2014, to the Agency's payroll records and time reports. We also reviewed six employees' personnel files.

SAFS billed CSS \$368,363 in payroll expenditures from July 2014 through January 2015.

Results

SAFS billed CSS \$98,853 in questioned costs. Specifically, SAFS:

- Billed CSS \$35,250 in unallowable salaries from July to December 2014 for one Clinical Director and one Staff Therapist to provide mental health services that were not required by the WIA Programs.
- Billed CSS \$22,834 in unsupported direct salaries. According to Agency management, the direct employees were not required to record their actual hours worked each day by program, as required by Section 3.2 of the A-C Handbook, but allocated their payroll expenditures evenly among the WIA Programs.
- Did not comply with their County contract's nepotism policy. According to Section 9.9 of their County contract, the contractor must certify that "it shall not hire nor permit the hiring of any person in a position funded under this contract if a member of the person's immediate family is employed in an administrative capacity." SAFS' Assistant Executive Director is the husband of their WIA Clinical Director and the WIA Program Director is the sister-in-law of the WIA Job Developer. The Clinical Director's salary is already included in the \$35,250 unallowable costs above. The additional questioned costs related to the Job Developer totaled \$22,500.
- Did not equitably allocate shared administrative and indirect staffs' salaries, such as the receptionist, Executive Director, accounting manager, and the Assistant Executive Director, to all benefited programs as required by Section C.2.0 of the A-C Handbook and OMB Circular A-122. Instead, SAFS charged the shared employees' costs to only a few of the Agency's programs based on predetermined percentages. At the time of our review, the Agency was providing services to more than 28 other non-WIA programs. Questioned costs totaled \$18,269.

In addition, SAFS did not always comply with other WIA and County contract requirements. Specifically, SAFS:

- Did not obtain criminal background clearance for four (80%) of the five volunteers/interns as required by Section 7.5 of their County contract. Subsequent to our review, SAFS provided proof of criminal background clearances for three of the four volunteers/interns.

- Did not pay five participants within the established timeframes as required. According to the California Labor Code Section 207, wages earned between the 1st and 15th days of any calendar month must be paid no later than the 26th day of the month during which the labor was performed, and wages earned between the 16th and last day of the month must be paid by the 10th day of the following month. SAFS paid some participants three weeks to two months after the established deadlines.

Recommendations

Santa Anita Family Service, Inc. management:

12. Repay Community and Senior Services \$98,853 plus any subsequent months' salaries and related employee benefits, or provide adequate documentation to support the expenditures.
13. Bill Community and Senior Services for allowable Program expenditures.
14. Ensure direct employees report actual hours worked each day by program and payroll expenditures are accurately billed based on the employees' and participants' reported hours worked.
15. Ensure compliance of the County's Nepotism Policy.
16. Ensure shared administrative and indirect staff's payroll expenditures are equitably allocated to all benefited programs.
17. Ensure criminal clearances are obtained for all Workforce Investment Act Program workers.
18. Ensure participants are accurately paid within established timeframes.

CLOSE-OUT REVIEW

Objective

Determine whether the Agency's FY 2013-14 close-out invoices for the WIA Programs reconciled to their financial records.

Verification

We compared SAFS' FY 2013-14 close-out invoices to their financial records. We also reviewed a sample of expenditures incurred during FY 2013-14.

SAFS billed CSS \$755,065 in FY 2013-14.

Results

SAFS billed CSS \$527,382 in FY 2013-14 in questioned costs. Specifically, SAFS:

- Did not equitably allocate shared administrative and indirect staffs' salaries to all benefited programs. Questioned costs totaled \$302,558.
- Did not follow their management-approved FY 2013-14 Plan as required, or provide adequate documentation to support their allocations of their shared expenditures. According to their Plan, shared expenditures were to be allocated based on direct Program salaries. However, SAFS allocated their FY 2013-14 shared expenditures based on square footage occupied by each Program. The square footage information provided by the Agency did not adequately support the allocation percentages used to bill the WIA Programs in FY 2013-14. In addition, SAFS' FY 2013-14 general ledgers did not adequately support the Agency's various Program expenditures, such as facility, liability insurance, participant wages, administrative costs, and other miscellaneous non-payroll expenditures billed to CSS. Questioned costs totaled \$173,304.
- Billed CSS \$51,520 in unallowable salaries in FY 2013-14 for one Clinical Director and one Staff Therapist to provide mental health services that were not required by the WIA Programs.

Our FY 2013-14 monitoring report did not include the \$527,382 in questioned costs.

Recommendations

Refer to Recommendations 5, 9, 13, and 16.

- 19. Santa Anita Family Service, Inc. management repay Community and Senior Services \$527,382 (\$302,558 + \$173,304 + \$51,520) plus any additional expenditures related to the unallowable and unsupported costs, or provide adequate documentation to support the expenditures.**



Santa Anita Family Service

Mending Minds • Healing Hurt • Saving Families

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COUNSELING PROGRAMS

June 30, 2015

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716 N. Citrus Avenue
Covina, CA 91723
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206 E. Las Tunas Dr., Ste 12
San Gabriel, CA 91776
(626) 308-1414
Fax (626) 308-1818

319 S. Park Ave., Ste G
Pomona, CA 91766
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SENIOR PROGRAMS

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740 N. Dalton Avenue
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324 S. Mission Drive
San Gabriel, CA 91755
(626) 308-2822

4100 Baldwin Park Blvd
Baldwin Park, CA 91706
(626) 813-5245

John Naimo, Auditor-Controller
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 S. Figueroa Street, 8th Floor
Los Angeles, CA 90071
Attention: Yoon Park/Iscah Wang

This Letter/Corrective Action Plan is in response to the final draft report received on June 22, 2015 at 4:39pm from the County of Los Angeles Department of Auditor-Controller. The draft report is a result of the Contract Compliance Review of Fiscal Year 2014-15 of the Workforce Investment Act Program Contract (WIA).

Santa Anita Family Service (SAFS or Agency) has successfully contracted with Community and Senior Services (CSS) primarily under a variety of fee-for-service contracts for decades. The WIA contract award under contract compliance review was SAFS's first experience with a substantial cost-reimbursement contract, which included subcontracts requiring further dissection of costs. At the time the contract was granted, the long-time accounting manager retired. Over the next 15 months the Agency experienced significant turnover in the accounting department. As a result, procedures were not updated in a timely manner to adequately support labor allocations to the various contracts, forcing alternative, less-than-ideal methods of cost allocation.

It is important to demonstrate the number of steps that the Board of Directors has taken since the very first draft report issued late August 2014 for the Fiscal Year 13-14. When the draft report came out, SAFS requested Technical Assistance from CSS to address the accounting issues and provide guidance for an acceptable cost allocation method under the circumstances. CSS compliance staff met with SAFS personnel and the recently hired accounting manager. The position of the Agency was to have CSS advise it of the approved methods so that an appropriate cost allocation could be presented and the accounting repaired. CSS indicated that SAFS needed to determine for itself what methods should be used and terminated Technical Assistance on the day before Thanksgiving, 2014.

Board of Directors

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Santa Anita Family Service
Attachment - Response to Auditor-Controller, County of Los Angeles

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The Board enacted a number of changes which included:

- Involvement of Board member/ CPA, to consult and study the situation Nov/Dec 2014.
- January 2015, CPA with government contract experience heads team for accounting clean-up and county response.
- Accounting assistant hired fall of 2014 to help with accounting and cost allocations.
- Experienced CPA with non-profit audit experience added as consultant and interim CFO.
- Consultant hired to work on County response and accounting for cost allocations.
- SAFS Board of Directors discusses retirement with Executive Director who agrees, to strengthen financial leadership and direction of the agency.
- The Board assumed day to day decisions and oversight of agency finances and obligations.
- SAFS has engaged an acting CFO.

The following items are the recommendations by the Auditor Controller (AC) and the responses from SAFS.

FINANCIAL VIABILITY

AC Recommendations

1. Submit Plan to CSS on how to improve financial conditions including paying debts as they become due.

SAFS Response

In the week of June 1st, SAFS paid approximately \$125,000 of past-due expenses. With the help of a private loan, and with the board assisting in the day-to-day financial responsibilities, SAFS is continuing to improve its financial situation using cost-cutting measures.

To further improve the Agency's financial condition, we are in discussions to determine the best way to leverage two major assets: the properties/buildings of the Monrovia and Covina locations

2. Maintain Accurate accounting records and improve Agency's oversight and monitoring of controls related to account for government grants and compliance requirements.

SAFS Response

SAFS has an Accounting Manager with CPA credentials, which allows the Agency to keep the basic financial records accurately in accordance with Generally Accepted Accounting Principles. The addition of CFO services and other advisors has begun moving SAFS toward incorporating policies and procedures that are in line with the standards for government grants.

The report said "SAFS has not updated their accounting records..." and our "... general ledgers did not adequately support the Agency's expenditures..." We have been waiting to provide CSS with an updated General Ledger – pending their approval of cost allocation methodology. We had been given indication that several major portions of the cost allocation plan were acceptable, but CSS reversed itself.

3. Ensure that accounting staff are qualified to perform financial accounting and reporting duties in compliance with County contracts.

Santa Anita Family Service
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SAFS Response

We are confident that our staff is qualified and has the ability to perform the accounting tasks that are reasonably required by our grants and contracts. We have already implemented procedures where by our employees document their time and effort on our various contracts. We are poised to implement a cost allocation plan, once we have a clear and firm determination from CSS.

4. Obtain the services of a full-time Chief Financial Officer or equivalent to perform the higher-level supervisory review over accounting staff.

SAFS Response

We have obtained the services of an acting CFO. He began on June 22 and is currently in the process of assessing the skills and qualifications of our accounting staff. We are prepared to make any necessary changes/additions in staffing to improve the quality of our accounting performance.

The acting CFO will develop and ensure accurate accounting processes and records are maintained. He will oversee and monitor controls related to accounting for government grants and compliance requirements.

In the 4th quarter of this calendar year, the acting CFO will help us identify what CFO requirements/responsibilities are critical for our agency's high-quality accounting performance and sustained growth and then help us identify the right candidate and hire a full-time CFO in place for January 2016.

CASH/REVENUE

AC Recommendations

5. Maintain accurate and complete accounting records.

SAFS Response

See response to #2 above

6. Ensure bank reconciliation reports are approved by management.

SAFS Response

It is SAFS's policy to have management review the bank reconciliations. The bank reconciliation referred to in the finding was a one-time exception to the policy. Prior to December 2014 and subsequent to December 2014 the monthly bank reconciliations have been approved by management.

7. Ensure bank reconciling items are resolved timely.

SAFS Response

Bank reconciling items are being resolved on a monthly basis as bank reconciliations are prepared and reviewed. This has been implemented as of March 31, 2015.

Santa Anita Family Service
Attachment - Response to Auditor-Controller, County of Los Angeles

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EXPENDITURES/COST ALLOCATION PLAN

AC Recommendations

8. Repay Community and Senior Services \$262,949 plus any subsequent months' unallowable and unsupported expenditures, or provide adequate documentation to support the expenditures.

SAFS Response

SAFS is finalizing and documenting the cost allocation plan for FY 13-14 for CSS. Once that plan is accepted by CSS, the FY 14-15 cost allocation plan will be developed for the first 3 quarters of FY 14-15 and submitted to CSS for review and approval. The time frame for this approval is 30 days.

As discussed with CSS, SAFS was instructed that the general ledger accounts will not need to be updated with the allocation entries until the allocation method is approved by CSS. The underlying source documentation, including organization-wide payroll records, cash receipts and disbursement ledgers, and accounts receivable ledgers are available and have been available since the start of the audit.

9. Ensure that the management approved Cost Allocation Plan is used when allocating shared costs, and ensure shared costs are appropriately and equitably allocated based on actual expenditures/conditions.

SAFS Response

Please see the response to #8 above. Once the cost allocation plan is approved, Management will ensure that it is used when allocating shared costs.

10. Ensure monthly reimbursement requests are based on actual paid expenditures and not budgeted amounts.

SAFS Response

As of March 31, 2015, SAFS has submitted monthly reimbursement requests based on actual paid expenditures.

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE

AC Recommendations

Refer to Recommendations 3 and 4.

11. Santa Anita Family Service, Inc. management ensure compliance with the Workforce Investment Act expenditure accrual reporting requirements.

SAFS Response

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As of March 31, 2015, SAFS has complied with the expenditure accrual reporting requirements. As per the response to AC Recommendation #10, SAFS has submitted monthly reimbursement requests based on actual paid expenditures.

PAYROLL AND PERSONNEL

AC Recommendations

Santa Anita Family Service, Inc. management:

12. Repay Community and Senior Services \$98,853 plus any subsequent months' salaries and related employee benefits, or provide adequate documentation to support the expenditures.

13. Bill Community and Senior Services for allowable Program expenditures.

SAFS Response to 12 and 13.

Unallowable salaries: The Auditor-Controller states that July to December reflected billing for positions providing mental health services by one Clinical Director and one staff therapist. This was clarified for FY 13-14 as well. The WIA contract was initiated on July 1, 2013. When the program was initiated, a budget modification was requested to reflect changes that had occurred. The WIA Contract Analyst assigned to the SAFS Youth Programs raised the question regarding the positions in relation to the budget modification that the program was not a mental health services program. The Assistant Executive Director (AED) responded that indeed it is not a mental health services program nor were we providing mental health services. The AED referenced the Statement of Work, section 2.6.2 item #10: "Guidance and Counseling, which can include drug and alcohol counseling and referrals." The position of Clinical Director was to work with the case managers on a weekly and emergent basis to identify and support youth who may have problems in their jobs. The role of the staff therapist was for counseling and workshops related to their jobs and issues arising on the job. The AED explained that with these populations, it was important to the program that we had the ability to identify and respond to specific job issues.

The Santa Anita Family Service WIA budget modification was approved by CSS prior to the very first billing incorporating those positions in July 2013, which continued into the 2014-15 year.

After the 13-14 Auditor Controller report the issue reemerged as a finding even though it had been approved. The AED indicated that he would change the titles of the positions in the budget as this seemed to create confusion. It was agreed that the positions would be renamed case management supervisor, and guidance counselor. This seemed to remedy the situation until the current 2014-15 Auditor Controller report, again claiming that these are inappropriate positions of mental health services.

Unsupported salaries: This issue is more accurately described as improperly allocated salaries. SAFS did not track direct labor hours by OSY and ISY services within the WIA program. Initially SAFS allocated direct labor costs equally between OSY and ISY. CSS did not agree with this allocation method and directed SAFS to allocate labor costs between OSY and ISY by participant counts. Subsequently CSS changed the definition of participant counts which then revised the

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allocation method. SAFS has performed further analysis of the WIA employees and job duties, and has identified the staff whose work benefitted both OSY and ISY contracts equally. The other monthly direct labor costs are being re-allocated according to the enrollments of the applicable month, even though we continued to work with all the active participants in the months following their enrollment. The per-capita (rather than per-census) reallocation has resulted in an increase of WIA ISY's share of the direct labor and a reduction for the amount for OSY.

14. Ensure direct employees report actual hours worked each day by program and payroll expenditures are accurately billed based on the employees' and participants' reported hours worked.

SAFS Response:

Effective April 1, 2015, SAFS has implemented tracking of actual labor hours by day by program for all staff. WIA staff began tracking actual hours worked by contract on March 1, 2015.

15. Ensure compliance of the County's Nepotism Policy.

SAFS Response:

The AED is the spouse of the WIA Clinical Director and the WIA Program Director is the sister-in-law of the WIA Job Developer. All costs associated with the WIA Job Developer and the WIA Clinical Director have been removed from the costs being charged to the WIA program. Note that the relationship between the WIA Program Director and the WIA Job Developer was known to CSS within three weeks of hire.

16. Ensure shared administrative and indirect staff's payroll expenditures are equitably allocated to all benefited programs.

SAFS Response:

As per response to AC Recommendation #8, SAFS is finalizing a cost allocation plan for FY 13-14 which has been submitted to CSS for review and approval.

17. Ensure criminal clearances are obtained for all WIA workers.

SAFS Response:

It was our understanding prior to the preliminary exit interview with the Auditor-Controller that our WIA volunteer, M. A., did not need to obtain a criminal background clearance because

- 1) He had absolutely no contact with WIA participants and did not perform any duties in any location in which he might have even inadvertently come into contact with WIA participants.*
- 2) His tasks were related to assisting with workshop curriculum development where he only had contact with the WIA Lead Case Manager, and was in no way privy to participant information.*

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At the preliminary exit interview with the Auditor-Controller it was recommended to us that we obtain a criminal background clearance for all volunteers/interns regardless of task assignment. We have been in compliance with this recommendation since then.

18. Ensure participants are accurately paid within established timeframe.

SAFS Response:

It was our understanding prior to the preliminary exit interview with the Auditor-Controller that we were unable to pay participants engaging in subsidized employment without them having submitted an accurate and complete time card signed by both the participant and the worksite. Therefore, the late payments were made to participants based upon delays in receiving such. At the preliminary exit interview with the Auditor-Controller it was recommended to us that we pay participants for estimations of time worked even if we hadn't received an accurate and complete time card signed by both the participant and the worksite. We have been in compliance with this recommendation since then.

CLOSE-OUT REVIEW

AC Recommendations

Referto Recommendations 5,9,13,and 16.

19. Repay Community and Senior Services \$527,382 (\$302,558 + 173,304 + \$51,520) plus any additional expenditures related to the unallowable and unsupported costs, or provide adequate documentation to support the expenditures.

SAFS Response:

SAFS expects to provide adequate documentation to support the expenditures within the 30 day time frame as determined by CSS.

Closing remarks for consideration

SAFS has taken the position of working with CSS and the Auditor Controller. We have invested much time, effort and attention towards remedying the situation.

SAFS fully cooperated and asked for help and significant progress was made and acknowledged by CSS.

SAFS openly acknowledged the difficulty with the accounting department, prompting the request for technical assistance.

Agreements made in the technical process now are indicated as no longer valid, with the reason being that the personnel didn't have the authority to make the agreement. Why have technical assistance?

Most of the difficulty of time is waiting for approval to then provide a G/L with approved allocations.

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There was and is no fraud or misuse of any funds, the concerns are allocations and documentations.

CSS has agreed that the costs incurred by SAFS are program costs. For FY 13-14, if the WIA program is looked at as a whole (OSY and ISY), expenses are equal to revenues. Yet CSS has stated that any cost overages are a "contribution" to the County, and any over-reimbursements to SAFS are moneys that will need to be repaid to CSS. This creates an incentive to CSS to disallow costs and/or cost allocations so that it can be reimbursed for any "overages".

During the past four months, CSS has modified the "allowable" allocation method between OSY and ISY so that costs are shifted to ISY, creating a situation in which ISY has expenses greater than revenues and OSY revenues exceed expenses.

We have concerns with the AC auditors' comments, which have frequently been arbitrary and accusatory. Anecdotal and often irrelevant facts are taken out of context and used as a basis for wholesale denial of reasonable allocation assumptions. Additionally, on-site auditors indicated they did not receive certain documents when they had, an auditor asked the maintenance person the job description of employees, and an auditor stated that a room with tables and chairs but no personal belongings indicated that the room was not used for WIA etc. This suggests predetermined beliefs impacting the audit process.

SAFS spent the money on appropriate program expenses: Salary, benefits, space, other costs. As stated above, CSS has agreed that the costs are program costs.

SAFS prepared and presented cost allocation plans several times to CSS as instructed by CSS. CSS verbally agreed to the cost allocations and supportive documentation and then rescinded the approval at a later date. When SAFS requested that the specific instructions be documented, CSS declined to do so, stating that it was SAFS's responsibility to provide the documentation and then CSS would decide if it was acceptable.

SAFS has been serving county contracts for 40 years and has a long history of monitoring and audit reports that are excellent.

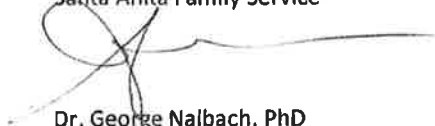
In addition to serving clients for over 40 years, we have been complimented repeatedly by the county and county auditors on the quality of our programs. The County has consistently said that we serve clients very well. This must carry some weight and help put into perspective that clients were served well, there was no fraud, and we simply were not aligned in how the funds were allocated in the accounting ledgers. We feel we have taken the necessary steps and added the resources to continue to serve our clients well and ensure that we can put into practice all that we have learned and move forward in an aligned partnership with the county.

In conclusion, thank you for allowing us to respond to the final draft report of the Contract Compliance Review of Fiscal Year 2014-15 of the Workforce Investment Act Program Contract (WIA). If you have questions or need additional information, please do not hesitate to contact us.

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A handwritten signature in black ink, appearing to be "Dr. George Nalbach", written over the printed name.

Dr. George Nalbach, PhD
Interim Executive Director

CC: SAFS Board of Directors
Stanley C. Morris